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ABSTRACT

The complex rules and regulations of the student financial aid industry have alienated and confused both students and parents, especially those from lower income families. Unless simplified, the financial aid application process will continue to act as a deterrent to participation in the U.S. educational system. Families managing to overcome the initial obstacles presented by the process are often faced with a financial aid needs analysis in which college costs, particularly indirect ones such as lost earnings, are severely underestimated. Financial aid packages must begin to reflect students' financial and college attendance realities. Even as public institutions carry the burden of educating more and more people, the vitality of the nation's public educational system has declined. A decade dominated by the social and economic policies of Reaganomics, particularly the decision to issue more aid in the form of loans rather than grants, has curtailed the aspirations and access of minority and lower income students. When loans comprise the primary financial aid package, the net benefits of a community college education are reduced and the risk of loan default looms large. At the City University of New York, college participation between 1975 and 1986 dropped for Blacks from 32.0% to 27.8% and for Hispanics from 20.4% to 16.1%, reflecting these students' vulnerability to cutbacks in financial aid. In this context, widespread concern that the door of educational opportunity is closing, particularly for poor people, seems warranted. That many young people will be limited to a future of unemployment, military service, or crime is indeed a sobering prospect. (JMC)

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The Tuition/Financial Aid Equation and its Impact on Access

Raymond C. Bowen
April 15, 1991

It is claimed, that the cost of educating a youngster in 4 years of college is considerably less than the cost to incarcerate one for 4 years. The cost differential even widens if we continue to plot the activities of these two individuals in terms of the positive contribution of the college educated one to society, and the negative contributions of the other. Now what relevance could this unusual line of comparison have with the topic of "The Tuition/Financial Aid Equation And Its Impact On Access?"

An interesting argument was made by Thomas Mortenson in a 1989 report, Missing College Attendance Costs: Opportunity, Financing, and Risk. The gist of his argument is that, the investment theory of student demand for higher education is that potential college students will choose from among the available options (college, employment, military service, crime, etc.). They make these choices based on the highest net present value

available to them from these options. In essence the net value is the present value of the benefits minus the present value of the costs of each option under consideration.

Student financial aid is a major educational industry, which has become more complex during the last 30 years. Financial aid personnel have been bewildered by the complicated rules mandated by federal and state governments. Just imagine how exasparating this experience must be for prospective students, even if much care is taken to guide them thoroughly through the process.

Because many students and parents are totally confused by the complexities of financial aid requirements, the process often becomes a deterrent to their participation in higher education. Lower income families, in particular, are understandably intimidated by this process. If we add to the scenario, inadequate family financial planning and lack of information on higher education, we have the perfect formula to discourage and inhibit higher education on the part of many minority and low-income students.

The intricacy of financial aid packages, have created time-consuming tasks for administrators and are, at times, very

confusing. Recent changes requiring strict verification of student aid application data have essentially compounded the level of complexity. It seems sensible to me, that a concerted effort must be made to simplify the entire process especially for low income families.

In fact, the costs of attending college can be severely understated for financial aid need analysis if we consider such indirect cost as lost earnings resulting from full employment. Furthermore, the substitution of grants by loans as an option for some students, pose a severe hardship on students who do not graduate. They are less able to repay the loans and the fees associated with the loans. These are merely some of the complexities that are not immediately apparent to students or parents when college attendance is being contemplated.

There is widespread concern that the door of educational opportunity is closing, particularly for poor people. As tuition in independent private institutions continue to soar, public institutions will undoubtedly carry the burden of educating more and more people. It is also becoming increasingly clear that public higher educational institutions are expected to reach out to retrain the unemployed and dislocated workers in order to enhance our economic well-being. But we are painfully aware that student aid programs have not been designed to serve these older students. Furthermore, individuals who have

been dislocated by plant closings and the transfer of industries to other shores have not been adequately provided for in terms of financial aid.

The economic vitality of this country is inextricably tied to the vitality of our educational institutions. Moreover, the American dream is that our country is a land of opportunity for those who are willing to work hard. It also is believed that our schools are democratic and open to all. Additionally, the dream suggests that life in the future will be better than in the past, and that our children will be better off than we are. A song from Gershwin's "Porgy and Bess" notes, "It Ain't Necessarily So".

How does this dream square with the trends that we have seen during the past decade, a decade dominated by the policies of Reagan and Reaganomics? In 1981, other nations owed the United States $100 million, and by 1986, we owed them $360 billion. In 1983, Japanese overseas investment was $17 billion. In 1985, it was listed at $64 billion and in 1990, it was close to $500 billion mostly in the United States.

After much upheaval in the 1960's, there was steady progress made in the 1970's in civil rights that heralded a significant increase of Blacks and Hispanics into higher education. But the 1980's saw a distinct reversal of this

positive thrust.

One thing that became clear in the 1980's was the fact that students seeking higher education would rely more heavily on loans than on financial aid grants. The decision by the federal government to cut federal assistance had a devastating effect on poor and minority students, in particular, who were least able to finance their college education otherwise. But the financial aid crunch has now crept painfully into the consciousness of the middle class as well.

Just last month, a delegation from the United States Student Association testified at a joint House-Senate hearing on federal financial aid in Washington. The students stirred the lawmakers with chilling accounts of the difficulties they faced as a result of stringent federal regulations that threaten their very educational lives. The point made by Jean LaMarre, Chairman of the City University of New York Student Senate was indeed poignant. He warned the members of the committee that "politicians and university administrators who raise tuition and cut student aid will suffer the consequences of higher crime rates." It was also his contention that the inability of students to afford college will lead to increasing crime and putting more people on the welfare rolls.

Representative William Ford of Michigan impressed by the

very persuasive arguments of the students, urged them to continue to push for more student aid. To underscore his understanding of the plight of students, the lawmaker offered the following advice:

> "I'm not advocating burning any campuses or shutting them down, but if it's necessary, I'm not telling you you shouldn't."

Last week, several campuses at the City University of New York were shut down by students.

There is ample documentation that there has been a lack of growth in grant assistance for poverty level student applicants since the late 1970's. Low-income students, in particular, have been burdened by the shift in federal student aid from outright grants to loans. The affluent student can move through college without any serious repayment obligations. For others, and that means the overwhelming majority of our community college students, the net benefits of a college education is reduced, when loans comprise the primary financial aid package.

The effect of heavy loans taken on by students at the lower end of the economic scale is that the risk of default looms very large. According to the New York Times of April 9, 1991, "By the end of 1991, more than 22 million Guaranteed Student Loans totaling $55 million will be

outstanding". The report further notes that "The gross cumulative default rate has risen to nearly 17 percent". If a pattern of default becomes clear for an institution, then there will be a strong rationale on the part of the federal government to eliminate further loan opportunities to that institution; thus access for low-income students will be curtailed. Another major loser, if student loans are eliminated are Banks, which according to the New York Times lend students more than $12 billion per year.

The statistics clearly show that the typical defaulters tend to be first year students from low-income and minority backgrounds with relatively small loan balances. These students, most likely, have not completed much more than the first year of College work; they have received no assistance from parents and are most likely unemployed when the loan comes due. In fact, the only way to reduce the default rate is to restrict access of loans to high risk students. This in turn establishes a vicious cycle by denying access to the students who are most in need of the opportunity to seek higher education.

Given these grim financial realities, what are the implications for higher education, in particular, and more importantly for the country? The demographic and economic changes now taking place across the country demand extraordinary investment in our human resources. The workforce of the 21st century will become

increasingly one in which Blacks, Hispanics and Asians are more prominent. The country can ill afford to have these critical entrants join the workforce without the requisite educational preparation that a college education provides. Colleges will argue, nevertheless, that it is very expensive to educate students that need more financial aid.

The City University of New York has long had a tradition of addressing the needs of poor immigrants. In 1970, the University moved away from its selective admissions posture to embrace open admissions. This initiative brought a sizeable minority presence to the University, reflecting the rich cultural and ethnic mosaic of the City. Very soon after, in 1976, responding to a very serious fiscal crisis, tuition was imposed for the first time on CUNY students. The issue quickly emerged, that as soon as minorities appeared in sizeable numbers, tuition became a reality.

In a paper given at the meeting of the American Educational Research Association in San Francisco in April, 1986, the authors David Lavin, James Murtha, Barry Kaufman and David Hyllegard argued that financial aid programs partly offset the effects of the imposition of tuition. They further contended that, "during this period, participation rates and degree completion for Blacks and Hispanics rose significantly, largely in response to increased federal aid. "

But by 1980, the national data showed that the gains of the early 1970's had begun to erode. The reality is that colleges are more likely to seek out students who are financially able so the economically disadvantaged will lose out.

In fact, the college participation for Blacks and Hispanics in CUNY dropped between 1975 and 1986 from 32.0% to 27.8% for Blacks and from 20.4% to 16.1% for Hispanics. More recent statistics have shown a resurgence in these statistics. Students from low-income families in general, have been seen as particularly vulnerable to cutbacks in financial aid. Furthermore, according to the College Board in a 1985 publication, blacks who do not receive financial aid withdraw from college at rates nearly 20 percentage points higher than whites who do not receive financial aid.

In CUNY the stringent criteria of the senior colleges have always diverted enrollments of lesser prepared students to the two-year colleges. In 1970, for example, 42% of freshmen entered community colleges while in 1980 more than 60% did so. Minority students were increasingly represented in the two-year colleges. Compounding the difficulties for minority students is the fact that transfer to the senior colleges of CUNY has traditionally been met with obstacles created by the senior colleges. Much effort has been expended in recent years to remedy this

situation.

Fiscal retrenchment, conservatism in educational policies as well as the continuing, sometimes quiet, debate on open-access versus excellence at CUNY have been consistent with the national trend. A very substantial proportion of CUNY students attend on a part-time basis or intersperse part-time with full-time attendance. The challenge that these arrangements pose for these students is that federal financial aid for part-time students is modest to non-existent. "As the pressure to keep tuition down" continues, Arthur Hauptman believes, "some good will go out with the bad". In fact, he states that "I don't know which goes first: The student aid or the faculty salaries".

Given the fact that over 40% of minority students who earned B.A.'s at CUNY took seven or more years to accomplish this objective, it seems to me that federal aid should be realigned to reflect these realities. The impact on access for students has to be seen in a very broad educational spectrum. If, for example, students have access to the community college but mediating circumstances retard their progress towards the baccalaureate degree or graduate studies, then there is, in my view, a definite problem with meaningful access. Financial need that impedes the process of educational achievement of a significant number of students, works at

cross purposes to our national interest of economic revitalization and democratization of our society.

In New York State, we are currently facing not only a $500 tuition increase for Fall, 1991, but there is also a severe slash proposed for the Tuition Assistance Program (TAP). If these proposals materialize, and many of us believe they will, the effects could be devastating since we have already experienced a tuition increase in the current year. The argument has been made that without the tuition increase, there would be a $40 million cut in the University's budget. It is safe to say that similar concerns are being raised in other states as well and comparably drastic measures are being contemplated. The state of New Jersey, for example, predicts a two percent enrollment decline next fall because of a tuition increase.

One theory suggests, that tuition at public institutions is directly proportioned to what an institution plans to spend in its budget and the level of municipal and/or state funding. An interesting observation was made by Arthur Hauptman in an article, Why Are College Charges Rising? which appeared in The College Board Review in the Summer of 1989: He notes that,

> "The pattern of public sector tuition increases in the 1980's serve as a reminder

> that the traditional way in which public higher education is funded in this country results in the largest tuition increases occurring when the economy is doing poorly and students can least afford to pay. By contrast, when economic times are good, that is when tuition increases are kept down."

Because most of us do not foresee any quick turn-around in the federal or state economic picture, we cannot be very optimistic about the future of public financing. There is a distinct prospect that for a large group of people access to college education will become increasingly difficult. Higher education must compete with a host of demanding programs and problems such as the failing savings and loan, major infrastructure needs and social programs (homelessness, housing, health care). Given this backdrop, college is becoming an impossible dream for a large proportion of high school graduates whose families find themselves in a low-income category or even within the lower middle class.

Are students then limited to those other options that I alluded to at the beginning, namely, unemployment, military service, or crime? This is indeed a sobering prospect. We are now at a time when the number of low-income families who are eligible for financial aid is

increasing while the funds available for aid are drastically decreasing. We need to pose the question that Ronald Reagan posed to the TV audience back in 1980, "Are you better off today than you were four years ago?

Thank you!

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